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January 4, 2007

VIA FACSIMILE FILING 505-476-3462

Florene Davidson, Hearing Clerk
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

RE: Matter of the Application of DKD, LLC for an Order Directing Gandy Corporation to Show Case, Lea County, New Mexico; Case No. 13686

Dear Ms. Davidson:

Please find attached Gandy-Marley's *Pre-Hearing Statement* for filing in the above captioned case. The original and six copies are being sent via U.S. Mail.

Thank you for your courtesies.

Sincerely,
DOMENICI LAW FIRM, P.C.



Charles N. Lakins, Esq.

cc: 1679
J. Scott Hall, Attorney for DKD
Gail MacQuesten, Attorney for OCD

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION OF
DKD, LLC FOR AN ORDER DIRECTING
GANDY CORPORATION TO SHOW CAUSE,
LEA COUNTY, NEW MEXICO**

CASE NO. 13686

GANDY CORPORATION'S PRE-HEARING STATEMENT

COMES NOW Gandy Corporation, by and through undersigned counsel of record, and submits the following Pre-Hearing Statement in the above-captioned matter.

I. NAME OF THE PARTY AND PARTY'S ATTORNEY

Gandy Corporation
Owner/Operator of Record
PO Box 827
Tatum, NM 88267

Pete V. Domenici, Jr., Esq.
Charles N. Lakins, Esq.
Attorney for Gandy Corporation
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(505) 883-6250
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II. GANDY CORPORATION'S STATEMENT OF THE CASE

DKD filed an Amended Application alleging that Gandy Corporation has violated various orders of the Oil Conservation Division and certain provisions of the New Mexico Oil and Gas Act (OGA). DKD, as a private party, requests that the OCD (and the Commission) to issue injunctive relief when the OCD and the Commission do not have the statutory authority to

hear such matters. The only action allowed by the OGA for a remedy by a private individual is the filing of a lawsuit "in the district court of any county in which the division could have brought suit." The OGA does not authorize either the Division or the Commission to hear this action.

Gandy Corporation ("Gandy") is the owner and operator of record of a commercial salt water disposal well, the State "T" Well No. 2 (API No. 30-025-03735), located 4,290' FSL and 500' FWL, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico. The well was authorized by OCD, under Order R-12171 dated July 9, 2004, to inject produced water between the depths of 4,810 to 6,880 feet. Gandy was authorized to operate its State "T" Well No. 2 under the authority of Division Order No. R-12171, issued July 9, 2004, to inject into the San Andres and Glorieta formations from depths 4,810 feet to 6,880 feet. The Order limited the maximum injection pressure to 962 p.s.i. Division Order No. IPI-264, dated December 19, 2005, authorized Gandy to increase the surface injection pressure on the well to a maximum surface injection pressure of 1,930 PSIG.

OCD Order R-12649, issued October 24, 2006 after hearing, revoked Division Order No. R-12171 effective November 23, 2006, and ordered Gandy to cease its injection operations. At Paragraph 17 of OCD Order R-12649, issued October 24, 2006, the Hearing Examiner found that "Gandy's injection well is equipped and cemented properly to isolate injected fluids vertically at the injection well site. Gandy complied with this Order and ceased its injection operations. Gandy has filed a C-103 form, to shut in the well no later than July 31, 2007, and then to plug and abandon it.

DKD operates a commercial salt water disposal well, the Watson 6 Well No 1 (API No. 30-025-34197), located 2,857' FSL and 1,417' FWL, Section 6, Township 16 South, Range 36

East, NMPM, in Lea County, New Mexico. DKD operates its injection well under SWD-834. The well is authorized to inject produced water between the depths of 10,340 to 11,062 feet. At Paragraph 18 of OCD Order R-12649, issued October 24, 2006, the Hearing Examiner found that "DKD's Waton "6" Well No. 1 is also cemented adequately and not in immediate danger from Gandy's injection operations."

DKD is also owner of the Snyder "A" No. 1 Well (API No. 30-025-03727), located 2,319' FSL and 330' FWL, Section 6, Township 16 South, Range 36 East, NMPM, in Lea County, New Mexico. The well was initially drilled to 10,719 feet with a perforation interval at 10,652' to 10,692', and in 1960 was perforated from 10,571' to 10,582' and 10,614' to 10,649'. The last production of the Snyder "A" No. 1 Well was 32 barrels of oil between January and July 1997. In December 2002, Energen, the former owner of the well, reported to OCD the well would not blow down. In December 2005 DKD asked OCD for an extension to plug and abandon the well, and was granted an extension until June 15, 2006. The well has not been P&A'd.

Gandy's State "T" Well No. 2 and DKD's Watson 6 Well No 1 are less than 2,000 feet apart. The Snyder "A" No. 1 Well is located approximately 2,000 feet from Gandy's State "T" Well No. 2, and approximately 1,500 feet from DKD's Watson 6 Well No 1.

No other parties have intervened in the case and no other parties are claiming waste or an impact on correlative rights. No other parties are operating within one-half mile of Gandy's State "T" Well No. 2 and DKD's Watson 6 Well No 1.

The testimony at hearing will demonstrate that there will be no impact on DKD's Watson 6 Well No 1 injection well, and no impact on any correlative right, by allowing Gandy to operate the State "T" Well No. 2 from the time of the hearing to July 31, 2007, the date that Gandy has

already indicated the well will be shut in. This is so because DKD's injection well is shown to be adequately cemented and not in any immediate danger from Gandy's injection operations, and because injection operations are not a correlative right. Also, DKD's Snyder "A" No. 1 Well is not a producing well and was required to have been plugged and abandoned no later than June 15, 2006.

The long-standing history between DKD and Gandy concerning the State "T" Well No. 2 is documented in Order No. R-11855-B, an Order of the Oil Conservation Commission that was issued following an evidentiary hearing on March 20, 2003 concerning Pronghorn Management Corporation's (Gandy's immediate predecessor in interest) application to dispose of produced water utilizing the State "T" Well No. 2. DKD's Amended Application is yet another attempt to invoke the authority of the Oil Conservation Commission to put its closest neighboring commercial competitor out of business, as no correlative rights are impacted by Gandy's operations. Because the Commission does not have jurisdiction to hear DKD's Amended Application, the matter should be dismissed.

III. WITNESSES TO TESTIFY AT THE HEARING

Gandy will call the following witnesses to testify at the hearing in this matter:

1. Larry Gandy, Gandy Corporation
2. Terry M. Duffy, EverQuest Energy Corporation

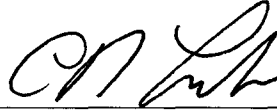
IV. APPROXIMATE TIME NEEDED TO PRESENT GANDY'S CASE.

Gandy will need approximately three (3) hours to present its case.

V. PROCEDURAL MATTERS TO BE RESOLVED PRIOR TO THE HEARING

Gandy's Motion to Dismiss Amended Application for Lack of Jurisdiction.

Respectfully Submitted,



Charles N. Lakins, Esq.
Attorney for Gandy Corporation
320 Gold Avenue SW, Suite 1000
Albuquerque, NM 87102
(505) 883-6250

I hereby certify that a true and correct copy of the foregoing was sent via facsimile and U.S. mail to all parties of record this 4th day of January 2007.



Charles N. Lakins, Esq.

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONVERSION DIVISION**

**IN THE MATTER OF THE APPLICATION OF
DKD, LLC FOR AN ORDER DIRECTING
GANDY CORPORATION TO SHOW CAUSE,
LEA COUNTY, NEW MEXICO**

CASE NO. 13686

GANDY CORPORATION'S AMENDED PRE-HEARING STATEMENT


COMES NOW Gandy Corporation, by and through undersigned counsel of record, and amends its Pre-Hearing Statement in the above-captioned matter to the following:

III. WITNESSES TO TESTIFY AT THE HEARING

Gandy will call the following witnesses to testify at the hearing in this matter:

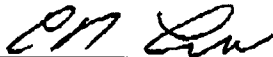
1. Dale Gandy, Gandy Corporation, in lieu of Larry Gandy, Gandy Corporation

Respectfully Submitted,



Charles N. Lakins, Esq.
Attorney for Gandy Corporation
320 Gold Avenue SW, Suite 1000
Albuquerque, NM 87102
(505) 883-6250

I hereby certify that a true and correct copy of the foregoing was sent via facsimile and U.S. mail to all parties of record this 4th day of January 2007.



Charles N. Lakins, Esq.